

CITY OF SAN JOSE

2005-2006 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

Overview

The City's debt service obligations include general obligation bonds, revenue bonds (enterprise funds), City of San José Financing Authority revenue and lease revenue bonds, commercial paper, special assessment bonds, community facilities district bonds, San José Redevelopment Agency debt and capital lease obligations.

- **General obligation bonds** are issued to finance various public improvements in the City for which the primary collateral for repayment is the ad valorem tax on property within the City. General obligation bonds require a two-thirds vote of the electorate.
- **Revenue bonds** are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority revenue and lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. These payments are included in the City Budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its political subdivisions that has a maturity of 270 days or less. Maturing commercial paper (CP) notes are repaid from the proceeds of sale of new CP notes or bonds or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. The City of San José Financing Authority Reassessment Revenue Bonds, Series 1994A and 1994B, were issued to refund six series of City of San José special assessment bonds.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts (CFDs). The source of repayment for CFD bonds is a special tax on privately owned properties within the CFD.
- **San José Redevelopment Agency debt** is issued to construct public improvements in redevelopment project areas in accordance with California Community Redevelopment law or to fund affordable housing projects. The principal source of repayment for Redevelopment Agency debt is future property tax increment revenues.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

Overview (Cont'd.)

The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt/capital lease obligations. In addition, Council has approved a supplemental Multi-Family Housing Revenue Bond Policy and Residential Development Guidelines.

The City of San José Charter establishes the following requirements associated with debt limitations:

- Section 1216 sets the bonded debt limit for general obligation bonds at fifteen percent (15%) of the total assessed valuation of all the real and personal property within the City.
- Section 1220 establishes the power of the City Council to issue revenue bonds to finance the acquisition, construction, establishment, expansion, improvement, maintenance, operation, and administration of off-street vehicular parking facilities within the City or of municipal airport facilities. No additional authorization is necessary to issue bonds under this section of the City Charter.
- Section 1221 provides that no revenue bonds may be issued by the City for the purpose of supplying its inhabitants, or any portion thereof, with water, light, heat, power, railroad, or motor vehicle transportation services (other than airport service), or telephone, telegraph, or wireless communication service unless authorized by the affirmative vote of a majority of the electors voting on such a proposition in each case.
- Section 1222 states that revenue bonds may be issued by the City for any purposes other than those specified in Sections 1220 and 1221 only under and pursuant to the laws of the State of California.

Debt Status and Capacity

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. As of June 30, 2005, the total assessed value on the City's 2004-2005 tax roll was \$95.3 billion, which results in a total debt capacity of approximately \$14.3 billion. As of June 30, 2005, the City had approximately \$337.24 million of General Obligation bonds outstanding.

The City, City of San José Financing Authority, Redevelopment Agency, and San José-Santa Clara Clean Water Financing Authority total outstanding debt as of June 30, 2005, is \$3.79 billion (see Table A). It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

Debt Status and Capacity (Cont'd.)

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002. The first set of program-specific policies, related to the City's multi-family housing program, was adopted by the City Council on June 11, 2002.

During 2005-2006, the Business Plan of the Strategic Support City Service Area includes development of additional program-specific policies tailored to certain types of financings which may include, but are not limited to, the City's general obligation, lease revenue, enterprise and land-secured financings.

Descriptions of the City of San José's debt activity for 2004-2005 as well as issues planned for 2005-2006 are provided in the following sections.

2004-2005 Debt Issues

The Finance Department partnered with several City departments on projects that resulted in debt financing during 2004-2005.

- **General Obligation Bonds, Series 2004 (Libraries, Parks and Public Safety Projects)** The City issued \$118.7 million of Series 2004 general obligation bonds on July 14, 2004. The proceeds will be used to fund \$58.3 million of library projects, \$46.0 million of neighborhood parks and recreation projects, and \$14.4 million of public safety projects. Debt service on the Series 2004 bonds is payable from *ad valorem* taxes levied upon all property subject to taxation by the City. The Series 2004 bonds bear interest at fixed rates ranging from 4.00% to 5.00%, and have a final maturity date of September 1, 2034.
- **City of San José Financing Authority Lease Revenue Bonds, Series 2005A (Taxable) and 2005B (AMT) (Land Acquisition Project)** On February 17, 2005, the City of San José Financing Authority issued \$54.48 million of Series 2005A (Taxable) and \$25.545 million of Series 2005B (AMT) lease revenue bonds. The bond proceeds were used to finance acquisition of and improvements to property adjacent to the Airport to be temporarily used by the Airport for aviation purposes. Debt service on the bonds during the period the property is used for aviation purposes will be paid from base rental payments received by the City from the Airport. The Series 2005A Bonds, which are insured by XL Capital, bear interest at weekly variable rates and have a final maturity date of March 1, 2029. The Series 2005B Bonds, also insured by XL Capital, bear interest at weekly variable rates and have a final maturity date of March 1, 2034.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2004-2005 Debt Issues (Cont'd.)

- **U.S. Department of Housing and Urban Development (HUD) Section 108 Loan (Land Acquisition Project Phase II)** On February 10, 2005, the City of San José received a loan commitment in the amount of \$25,810,000 from HUD under the Section 108 Loan Guarantee Program. The City plans to draw on the loan commitment to finance acquisition of property adjacent to the Airport. On February 16, 2005, the City made an initial draw on the loan commitment in the amount of \$342,000 to place a deposit on the property and pay other costs associated with the land acquisition. Debt service on the HUD loan will initially be paid from HUD grant funds received by the City, and then from lease revenue and sales tax revenue generated by commercial activities on the property to be acquired. The HUD Section 108 Loan bears interest at monthly variable rates and has a final maturity date of August 1, 2024.
- **General Obligation Bonds, Series 2005 (Libraries and Public Safety Projects)** The City issued \$46.3 million of Series 2005 general obligation bonds on June 23, 2005. The proceeds will be used to fund \$21.3 million of library project and \$25.0 million of public safety projects. Debt service on the Series 2005 bonds is payable from *ad valorem* taxes levied upon all property subject to taxation by the City. The Series 2005 bonds bear interest at fixed rates ranging from 3.00% to 7.50%, and have a final maturity date of September 1, 2035.
- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds, Series 2005A, Series 2005B (Taxable), Series 2005C (AMT) and Series 2005D (AMT)** On June 30, 2005, the Redevelopment Agency issued \$10.445 million of Series 2005A, \$119.275 million of Series 2005B (Taxable), \$33.075 million of Series 2005C (AMT) and \$33.075 million of Series 2005D (AMT) housing set-aside tax allocation bonds. The proceeds of the Series 2005A bonds were used to current refund the Agency's Series 1993D housing set-aside tax allocation bonds. The proceeds of the Series 2005B bonds were used to advance refund all of the Agency's Series 2000F housing set-aside tax allocation bonds and current refund a portion of the Agency's Series 2002G and Series 2002H housing set-aside tax allocation bonds. Proceeds of the Series 2005C and Series 2005D bonds were used to current refund the remaining portion of the Agency's Series 2002G and Series 2002H bonds and to finance and refinance affordable housing projects. Debt service will be payable from the 20% portion of Agency tax increment revenues set aside for affordable housing.

The refunding of the Series 1993D bonds with proceeds of the Series 2005A bonds generated net present value savings of approximately \$1.41 million. This savings represents a 13.40% net present value reduction in debt service payments. The refunding of the Series 2000F bonds with proceeds of the Series 2005B bonds generated net present value savings of approximately \$8.99 million, representing a 20.35% net present value reduction in debt service payments.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2004-2005 Debt Issues (Cont'd.)

The refunding of the Series 2002G bonds and Series 2002H bonds, both of which were taxable and paid interest at weekly variable rates, with proceeds of the taxable fixed rate Series 2005B bonds and tax-exempt (AMT) variable rate Series 2005C and Series 2005D bonds, allowed the Agency to achieve a more economic allocation of variable and fixed rate debt and to refund a portion of its taxable debt on a tax-exempt basis.

The Series 2005A bonds, which are insured by FGIC, bear interest at tax-exempt fixed rates ranging from 3.75% to 5.00%, and have a final maturity date of August 1, 2024. The Series 2005B bonds, which are also insured by FGIC, bear interest at taxable fixed rates ranging from 3.89% to 5.46%, and have a final maturity date of August 1, 2035. The Series 2005C and Series 2005D bonds, which are supported by a Bank of New York direct-pay letter of credit, bear interest at tax-exempt (AMT) weekly variable rates, and have a final maturity date of August 1, 2035.

- **Multi-Family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received allocations from the California Debt Limit Allocation Committee (CDLAC) and closed the following projects while complying with CDLAC regulations:

Allocation awarded on September 15, 2004, resulting in bond issuance in October 2004:

- Delmas Park Apartments (\$19.379 million), closed October 15, 2004

Allocation awarded on December 15, 2004, resulting in bond issuance in February 2005:

- Raintree Apartments (\$21.1 million), closed February 1, 2005

2005-2006 Planned Debt Issues

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Tax Allocation Refunding Bonds, Series 2005A and Series 2005B** On July 25, 2005, the Redevelopment Agency issued \$152.95 million of Series 2005A and \$67.13 million of Series 2005B tax allocation bonds. The proceeds of the Series 2005A bonds were used to current refund a portion of the Agency's Series 1993 tax allocation bonds and advance refund portions of the Agency's Series 1997 and Series 2002 tax allocation bonds. The proceeds of the Series 2005B bonds were used to current refund portions of the Agency's Series 1998 and Series 1999 tax allocation bonds. Debt service is payable from the Agency's tax increment revenues.

The refunding generated net present value savings of \$6.89 million, representing a 3.06% net present value reduction in debt service payments. The Series 2005A bonds, which are insured by MBIA, bear interest at fixed rates ranging from 3.25% to 5.00%, and have a final maturity date of August 1, 2028. The Series 2005B bonds, which are insured by Ambac, bear interest at fixed rates ranging from 4.50% to 5.00%, and have a final maturity date of August 1, 2015.

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DEBT SERVICE OBLIGATIONS (CONT'D.)

2005-2006 Planned Debt Issues (Cont'd.)

- **Sewer Revenue Refunding Bonds** The San José-Santa Clara Clean Water Financing Authority plans to issue approximately \$80 million of sewer revenue bonds in summer 2005 to refund its outstanding Series 1995A and Series 1995B sewer revenue bonds. Such a refunding would only be completed, however, if it produced net present value debt service savings of at least 3%, as specified by the City's Debt Management Policy.
- **General Obligation Bonds, Series 2006 (Libraries, Parks and Public Safety Projects)** The City plans to issue another series of general obligation bonds in June 2006. The proceeds of those bonds would be used to fund a portion of the libraries, parks, and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.
- **Multi-Family Housing Revenue Bonds** The Housing Department anticipates submitting applications to CDLAC on behalf of the following projects, with allocation scheduled to be awarded on September 21, 2005:
 - Paseo Senter I (\$32 million)
 - Paseo Senter II (\$28 million)

The Housing Department also anticipates submitting an application to CDLAC on behalf of the following project, with allocation scheduled to be awarded on December 21, 2005:

- Curtner Gardens (\$9 million)

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DEBT SERVICE OBLIGATIONS (CONT'D.)

(A) Summary of Changes in Long-Term Debt for the Year Ending June 30, 2005
(In Thousands of Dollars)

	Balance July 1, 2004	Additions to Long-Term Obligations	Current Maturities and Retirements	Balance June 30, 2005
GENERAL LONG TERM DEBT				
General Obligation Bonds	178,480	165,000	6,240	337,240
HUD Section 108 Loan		342		342
Special Assessment Bonds with Limited Governmental Commitment	85,142		5,708	79,434
Obligations Under Capital Lease	16		16	0
CITY OF SAN JOSE FINANCING AUTHORITY				
Lease Revenue Bonds, Series 1993B	11,513	308	810	11,011
Lease Revenue Bonds, Series 1997A	6,395		135	6,260
Lease Revenue Bonds, Series 1997B	5,395		1,065	4,330
Lease Revenue Bonds, Series 2000B	22,245		145	22,100
Lease Revenue Bonds, Series 2000C (Taxable)	22,200		750	21,450
Lease Revenue Bonds, Series 2001B (Taxable)	24,000			24,000
Lease Revenue Bonds, Series 2001C (Taxable)	18,500			18,500
Lease Revenue Bonds, Series 2001D	10,800			10,800
Lease Revenue Bonds, Series 2001E	13,720		1,785	11,935
Lease Revenue Bonds, Series 2001F	181,390		4,540	176,850
Lease Revenue Bonds, Series 2002B	292,425			292,425
Lease Revenue Bonds, Series 2002C	60,000			60,000
Lease Revenue Bonds, Series 2002D	60,000			60,000
Lease Revenue Bonds, Series 2003A	22,625		745	21,880
Lease Revenue Bonds, Series 2004A (Taxable)	9,225			9,225
Lease Revenue Bonds, Series 2005A (Taxable)		54,480		54,480
Lease Revenue Bonds, Series 2005B (AMT)		25,545		25,545
Reassessment Revenue Bonds, Series 1994A	1,405		1,125	280
Reassessment Revenue Bonds, Series 1994B (Sub.)	1,530		515	1,015
Revenue Bonds, Series 2001A	46,370		1,225	45,145
REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	140,775	129,720	57,970	212,525
Housing Tax Allocation Bonds (Subordinate)	70,000	66,150	70,000	66,150
Redevelopment Tax Allocation Bonds	1,524,705		20,605	1,504,100
Redevelopment Tax Allocation Bonds (Sub.)	119,000		1,400	117,600
HUD Section 108 Loan	4,125		205	3,920
CITY OF SAN JOSE ENTERPRISE FUNDS				
Airport Revenue Bonds	512,500		8,615	503,885
Sewer Revenue Bonds	95,745		3,710	92,035
TOTAL	3,540,226	441,545	187,309	3,794,462

CITY OF SAN JOSE
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DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Bonds and Notes Payable at June 30, 2005 by Individual Issue (Cont'd.)

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	4.25-5.125%	63,890
General Obligation Bonds, Series 2002	2032	3.0-5.0%	108,350
General Obligation Bonds, Series 2004	2034	4.0-5.0%	118,700
General Obligation Bonds, Series 2005	2035	3.0-7.5%	46,300
HUD Section 108 Loan	2007	Variable Rate	342
Total City of San José			<u><u>337,582</u></u>
SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2032	Various	<u><u>79,434</u></u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 1993B	2018	5.60-6.00%	11,011
Lease Revenue Bonds, Series 1997A	2027	5.30-5.60%	6,260
Lease Revenue Bonds, Series 1997B	2012	4.40-4.875%	4,330
Lease Revenue Bonds, Series 2000B	2030	4.70-5.50%	22,100
Lease Revenue Bonds, Series 2000C (Taxable)	2024	Variable Rate	21,450
Lease Revenue Bonds, Series 2001B (Taxable)	2024	Variable Rate	24,000
Lease Revenue Bonds, Series 2001C (Taxable)	2024	Variable Rate	18,500
Lease Revenue Bonds, Series 2001D	2026	Variable Rate	10,800
Lease Revenue Bonds, Series 2001E	2010	3.00-5.00%	11,935
Lease Revenue Bonds, Series 2001F	2022	4.00-5.00%	176,850
Lease Revenue Bonds, Series 2002B	2037	3.00-5.25%	292,425
Lease Revenue Bonds, Series 2002C	2039	Variable Rate	60,000
Lease Revenue Bonds, Series 2002D	2039	Variable Rate	60,000
Lease Revenue Bonds, Series 2003A	2023	3.00-4.70%	21,880
Lease Revenue Bonds, Series 2004A (Taxable)	2024	Variable Rate	9,225
Lease Revenue Bonds, Series 2005A (Taxable)	2029	Variable Rate	54,480
Lease Revenue Bonds, Series 2005B (AMT)	2034	Variable Rate	25,545
Reassessment Revenue Bonds, Series 1994A	2005	5.40%	280
Reassessment Revenue Bonds, Series 1994B (Sub.)	2007	6.00%	1,015
Revenue Bonds, Series 2001A	2026	3.80-5.25%	45,145
Commercial Paper Notes	Short Term	Various	33,003
Total City of San José Financing Authority			<u><u>910,234</u></u>
REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2035	2.00-5.85%	212,525
Housing Tax Allocation Bonds (Subordinate)	2035	Variable Rate	66,150
Redevelopment Tax Allocation Bonds	2033	2.00-6.00%	1,504,100
Redevelopment Tax Allocation Bonds (Sub.)	2032	Variable Rate	117,600
HUD Section 108 Loan	2016	Variable Rate	3,920
Total Redevelopment Agency			<u><u>1,904,295</u></u>

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DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Bonds and Notes Payable at June 30, 2005 by Individual Issue (Cont'd.)

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 1994	2007	5.875%	3,620
Revenue Refunding Bonds, Series 1998A	2018	4.25-4.75%	10,570
Revenue Bonds, Series 2001A	2031	3.25-5.25%	152,325
Revenue Refunding Bonds, Series 2002A	2018	4.00-5.375%	53,600
Revenue Refunding Bonds, Series 2002B (AMT)	2012	3.00-5.00%	33,770
Revenue Bonds, Series 2004A (AMT)	2034	Variable Rate	70,000
Revenue Bonds, Series 2004B (AMT)	2034	Variable Rate	70,000
Revenue Bonds, Series 2004C (AMT)	2026	4.625-5.25%	75,730
Revenue Bonds, Series 2004D	2028	5.00%	34,270
Commercial Paper Notes	Short Term	Various	7,755
San José-Santa Clara Clean Water Financing Authority:			
Revenue Bonds, Series 1995A	2020	4.80%-5.375%	65,335
Revenue Bonds, Series 1995B	2011	Variable Rate	26,700
State of California Revolving Loan	Short Term	Various	52,658
Total Enterprise Funds			<u>656,333</u>
GRAND TOTAL			<u><u>3,887,878</u></u>

CITY OF SAN JOSE
2005-2006 ADOPTED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(C) Annual Requirements to Amortize All Bonds and Notes Outstanding
as of June 30, 2005*
(In Thousands of Dollars)

Year Ending June 30	City of San José	Special Assessment Bonds	City of San José Financing Authority	Redevelopment Agency	Enterprise Funds
2006	25,254	7,573	53,591	122,084	39,786
2007	27,010	7,412	54,164	131,805	39,643
2008	26,820	7,419	53,451	132,379	39,733
2009	25,943	6,988	53,877	132,301	40,783
2010	25,385	6,982	56,374	132,250	40,894
Thereafter	443,500	92,180	1,356,332	2,676,911	825,234
Total	573,912	128,554	1,627,789	3,327,730	1,026,073

* The following interest rates were used to project debt service for variable-rate bonds:

	Tax-Exempt	Subject to AMT	Fully Taxable
2005-2006	3.20%	3.25%	4.45%
Thereafter	3.20%	3.25%	4.55%